Putting Investors First
How FINRA Helps Safeguard Investors
2012 Consumer Issues Conference
Laramie, Wyoming

Who We Are
- FINRA is the Financial Industry Regulatory Authority
- Independent, self-regulatory organization created under federal law (Maloney Act of 1938)
- FINRA’s activities are overseen by the Securities and Exchange Commission (SEC)
- Primary layer of investor protection in the federal scheme to regulate securities firms
- All U.S. broker-dealers that do business with the public must become FINRA members and subject to FINRA oversight
- Formed in 2007 as successor to National Association of Securities Dealers, Inc. (NASD) and New York Stock Exchange Member Regulation operations

What We Do
- FINRA touches virtually every aspect of the securities business
  - Registering and licensing industry participants
  - Writing rules
  - Examining securities firms for compliance with rules
  - Enforcing those rules and federal securities laws
  - Informing and educating investing public
  - Providing trade reporting and other industry utilities
  - Administering the largest dispute resolution forum for investors and registered firms
  - Performing market regulation under contract for exchanges

Statistical Overview
- 3,200 FINRA employees in 20 offices
- 4,400 member firms with 163,000 branch offices
- 630,000 registered representatives

Governance and Funding
- Funded entirely by fees paid by broker-dealers
- Governed by Board of Governors
  - Board must include majority of public (non-industry) Governors
  - Industry seats represent cross-section of firm sizes and business models
- Autonomous staff subject to Board supervision
- Advisory industry committees

SEC Oversight
- SEC must find that FINRA rules and operations protect investors and prevent fraud and manipulation
- SEC oversight includes:
  - Review and approval of all FINRA rules
  - Review of all FINRA disciplinary actions
  - Requiring FINRA to keep records and file reports with SEC
  - Examination and inspection of FINRA offices and operations
  - Potential to limit, suspend or revoke FINRA registration as national securities association, and to remove or censure FINRA officers
Examinations
- More than 1,000 FINRA employees in exam program
- Routine examinations
  - Conducted annually or semi-annually
  - 3,000 routine examinations in 2011
  - More risk-based approach
- Targeted examinations
  - Based on investor complaints, internal or external referrals, for cause employee terminations or arbitrations
  - 5,555 targeted examinations in 2011

Enforcement
- Formal disciplinary actions taken against firms and individuals for violations of securities laws and FINRA rules
- Can result in fines, suspensions and expulsions from industry
- Fair disciplinary process with rights of appeal to the National Adjudicatory Council (NAC), and SEC and federal appeals courts
- 2011 Actions:
  - 1,488 disciplinary cases
  - Nearly $72 million in fines, investor restitution of $19.4 million
  - Expelled or suspended 21 firms, barred 329 individuals from industry and suspended 475 others

Office of Fraud Detection and Market Intelligence
- Created in October 2009 in response to FINRA Board recommendation
- Heightened review of incoming allegations of fraud
- Provides a centralized internal and external point of contact for fraud issues
- Provides a real-time platform for staff consultation and cross-departmental discussion of potential fraud issues
- Manages and assists in the execution of high profile investigations
- Provides training and consultation to FINRA staff

2011 OFDMI Results/Regulatory Intelligence
- 300+ Insider Trading Surveillance referrals
- 300+ Fraud Surveillance referrals
- 100+ Whistleblower referrals

Registration and Licensing
- FINRA administers qualification examinations for securities professionals
- 44 different qualification exams to over 193,019 persons each year
- Continuing education program for registered representatives
- Central Registration Depository (CRD) program
  - Qualification, employment and disciplinary histories for nearly 17,400 current and former firms and 1.3 million current and former registered individuals
  - Used by SEC and state securities regulators

Advertising Regulation
- Advertising rules governing all broker-dealer and investment sales material
- Filings program
- Investigations and enforcement
- Reviewed 105,329 items in 2011
Market Surveillance
- Automated surveillance programs
- In 2011, FINRA captured over 2.79 billion quotes, trades and orders each day
- Regulatory services for NASDAQ, NYSE Euronext, BATS and International Securities Exchanges – approximately 80 percent of U.S. Equity Trading
- Identify violations of best execution and short sale requirements, manipulation, fraud and insider trading

Transparency Services
- Trade Reporting and Compliance Engine (TRACE): transaction data for federal and corporate bond secondary market transactions
- Alternative Display Facility (ADF): quotation and trade collection, trade comparison and information dissemination
- OTC Reporting Facility (ORF)
- Trade Report Facilities (TRF)

Industry Training
- Education services for firms and individuals
- Conferences, classroom and online courses, and podcasts
- Over 455 programs annually

Investor Education at FINRA

Investor Education
- Investor Publications
- Tools & Podcasts
- Special Projects
  - Job Dislocation
  - Auto 401(k)
- Integration with Regulation
- Investor Alerts

Investor Alerts
Key Sources:
- ENF / ERI / Member Reg / OFDMI
- Other intelligence gathering:
  - Scam sites
  - Media
- Investor calls or gatherings
Unique Tools and Resources

- FINRA BrokerCheck

FINRA.org/investors

- FINRA.org/investors
  - Sign-up for Monthly E-news
  - Check a Broker’s History
  - Timely Investor Alerts
  - Saving for College
  - Order Free Publications

FINRA Foundation: Grant Making

- Smart Investing @ Your Library – American Library Association
- Financial Education in Your Community – United Way
- Arbitration Clinics

FINRA Foundation: Targeted Projects

- Military Financial Education Project
- Generation Money — Financial Literacy for Teens
- Symposium on Social Marketing for Investor Education
- National Financial Capability Study
- Investor Protection Campaign

Investor Protection Program—Outsmarting Investment Fraud

- Partners:
  - AARP, federal and state agencies, BBB and grassroots organizations
- Elements:
  - Field-tested program curriculum
  - Documentary
  - Partner toolkit and educational materials
  - Web site
  - Paid and earned media
- Reach (2011):
  - 8,000 investors reached through 167 events
  - 468 documentary airings reaching 52 million households (45% of TV market)
  - 30,000 documentary DVDs and 100,000 Fighting Fraud brochures
National Financial Capability Study

- Worked with Treasury and President’s Advisory Council on Financial Capability
- Objective: To benchmark and better understand financial capability in America
- State-by-state analysis
  www.usfinancialcapability.org

Where to Learn More

- FINRA Web Site: www.finra.org
- Foundation Web Site: www.finrafoundation.org

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